

**CITY OF BLACK DIAMOND**  
**King County, Washington**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1.     The Clerk-Treasurer Converted Vacation Leave To Cash Without Authorization

During 1992, the City of Black Diamond clerk-treasurer paid herself \$6,798.54 for 386.5 hours of accrued vacation leave in violation of the city's personnel policies.

The clerk-treasurer is granted 36 days paid vacation per year. The city personnel policy states:

Vacation time . . . shall not be accumulated in excess of the regular vacation time earned during each year of service . . . .

Any employee not taking his vacation shall not be entitled to any extra compensation for having worked during the period for which he was entitled to a vacation unless requested by a department head, with the approval of the city council, to do so. (Emphasis ours.)

The clerk-treasurer, who is a department head, did not seek or receive the approval of the city council for any of the vacation time she paid herself. Council had no knowledge of this transaction.

The following material internal control weaknesses allowed the clerk-treasurer to cash in her vacation leave without approval or detection:

- a.     Most of the payroll accounting functions were the sole responsibility of one person, the clerk-treasurer.
- b.     The payroll warrants are signed by the clerk-treasurer. The mayor's stamped signature is routinely applied by the clerk-treasurer or her assistant.
- c.     The city council does not approve payroll warrants.

We recommend the city council review the clerk-treasurer's unauthorized vacation cash out and either authorize the payment or seek recovery.

We also recommend city officials:

- a.     Separate, to the extent possible in a two-person accounting operation, the payroll accounting functions.

- b. Require the mayor to affix his own signature to city warrants.
- c. Require council approval of payroll warrants entered into the minutes.

2. The City Council Should Exercise Sufficient Control Over Wages Paid

The City of Black Diamond clerk-treasurer and her assistant received 16 and 25 percent salary increases (compared to 4.4 percent increases for the other employees) without documented council approval.

Pay rates should be authorized through adoption of the city's budget which is required to include directly or by reference a salary schedule by position. The City of Black Diamond's 1992 budget document did not include such a salary schedule, and thus approval for the salary increases was not documented.

RCW 35A.33.050 provides that:

. . . The salary or salary range for each office, position or job classification shall be set forth separately together with the title of position designation thereof: PROVIDED, That salaries may be set out in total amounts under each department if a detailed schedule of such salaries and positions be attached to and made a part of the budget document.

Wages and related costs are budgeted only on a department total basis. We found no connection between these department total requests and actual wage rates. The Finance/Administration Department budget for 1992 requested only a \$250 increase in salaries over 1991; actual salaries for that department decreased almost \$5,000 for 1992.

The clerk-treasurer's salary and that of her assistant are charged, budget and actual, to several city departments, not just finance/administration. The salary increases were buried in these other departments. The clerk-treasurer prepares the budget and posts the entries distributing the actual salary charges. Further, as discussed in Finding 1, the clerk-treasurer has complete control over the payroll warrants.

We believe the lack of city council salary authorizations and the level of control over the budgeting, accounting, and reporting of payroll transactions and the issuance of payroll warrants vested in the clerk-treasurer to be material weaknesses.

We recommend the City of Black Diamond council review and authorize employee pay rates for the present and in the future include a proper salary schedule for all city positions either directly or by reference in the budget document formally approved by the city council pursuant to the budgeting process established by Chapter 35A.33 RCW.

3. The City Should Submit Accurate Annual Financial Reports

The City of Black Diamond's 1992 annual financial reports to the state auditor and the state secretary of transportation contained significant errors.

Reports required to be filed with the State Auditor (specifically, Schedules C-4 and C-5, "Detail of Revenues and Other Resources" and "Detail of Expenditures and Other Uses") contained numerous inaccuracies due primarily to coding errors in the underlying accounting records. Other reports (Schedule 09, Long-Term Debt; Schedule 16, Financial Assistance; and Schedule 18, Criminal Justice Expenditures) were not properly prepared.

Further, activities of the city's wastewater utility were reported on the wrong schedule and activities related to drug investigations and forfeitures were not reported at all.

RCW 43.09.230 states:

The state auditor shall require from every taxing district . . . financial reports . . . in accordance with the forms and methods prescribed by the state auditor . . . The reports shall contain accurate statements . . . .

The street cost report required to be filed with the state secretary of transportation included numerous revenue and expenditure items reported on wrong lines in the detail section of the report. A Transportation Improvement Board grant was incorrectly reported and the street inventory was not updated for 1992 construction activity.

RCW 35.21.260 requires all cities and towns to submit

. . . records and reports regarding street operations . . . to the secretary of transportation on forms furnished by him . . . .

These errors were due to inaccurate underlying accounting records or incorrect transference of information from the accounting records to the reports and inadequate familiarity with the various reporting requirements. We consider this a material weakness.

When annual reports are inaccurate, users of the reports are denied useful financial information. Further, reports compiled by state agencies based on the city's reports are inaccurate.

The statements and schedules contained in this report have been corrected with the assistance of the auditor.

We recommend city personnel accurately prepare all required annual reports. We further recommend city personnel accurately post transactions to its accounting records so that the accounting system will generate accurate reports.

4. The City Should Have Complied With Federal Labor Standard Requirements Related To The Davis-Bacon Act

The City of Black Diamond did not have adequate controls in place to monitor contractor compliance with Davis-Bacon requirements.

At the time of our audit, the city was not able to produce any certified payrolls for the contractor or subcontractors for the Cranmar Creek Crossing portion of a construction project funded by the Environmental Protection Agency (EPA) Wastewater Treatment Works Construction grant (CFDA 66.418). Subsequent to our audit, the city obtained the certified payrolls from the contractor.

For those certified payrolls we tested from the prime contractor and subcontractors on the remainder of the construction work, which were on file with the city, we were unable to determine if the prevailing wage had been paid in all cases. Further, we found one instance where an employee appeared to have been paid less than the required minimum wage. We also reviewed the payrolls supplied for the Cranmar Creek Crossing contract. We noted no instances of noncompliance; although, again, we were unable to determine compliance in all cases.

Federal labor standards for this grant, outlined in EPA Form 5720-4, include payment of prevailing minimum wages to laborers and mechanics, and the submission of weekly payrolls to the city.

The lack of certified payrolls for the Cranmar Creek Crossing contract was apparently due to oversight.

The construction activity related to this grant is now completed.

We recommend that for any federal assistance programs involving construction activity, for which the Davis-Bacon provisions have been made applicable, the city strengthen controls to provide reasonable assurance all contractors are submitting the required certified payrolls. We further recommend the city work with EPA and its contractors to determine compliance and resolve any instances of noncompliance.

5. The City Should Have Complied With Federal Requirements Related To Civil Rights

The City of Black Diamond did not have a control system in place to monitor contractor compliance with Women/Minority Business Enterprise (WMBE) participation requirements or to ensure its own compliance with affirmative action requirements to solicit WMBEs in its contracting and procuring. The city also had no system to ensure the timely filing of Form SF-334.

No documentation was obtained by the city showing the actual amount of work done by WMBE subcontractors. Therefore, contractor compliance with WMBE participation requirements could not be determined.

The city has not established WMBE solicitation lists and did not solicit from such a list in contracting Cranmar Creek Crossing. These are affirmative action steps required in the terms and conditions of its grant agreement with the Environmental Protection Agency (EPA).

The city also did not submit quarterly Form SF-334, "MBE/WBE Utilization Under Federal Grants, Cooperative Agreements, and Other Federal Financial Assistance," as required by the grant agreement. The city believes the contractors submitted the form directly but obtained no verification.

Terms and Conditions 17 of the grant agreement with EPA required the city to utilize to the "fullest extent possible" at least ten percent minority and six percent women business enterprises. It also required the city to take certain affirmative action steps to solicit WMBEs in order to satisfy the "fullest extent possible" language. Further, it required the city to submit the SF-334 form quarterly.

These conditions existed because city personnel believed the filing of documents by its contractors directly to federal or state agencies and monitoring by federal and state agencies was sufficient to ensure compliance and fulfill city control requirements.

The construction activity related to this grant is now completed.

We recommend that for federal assistance programs the city put in place control systems to provide a reasonable assurance that it and its contractors are complying with civil rights related requirements.

6. The City Should Have Complied With Federal Requirements Related To Cash Management

The City of Black Diamond did not pay vendors and a construction contractor until December 1992, grant funds advanced to the city by the Environmental Protection Agency (EPA) in September 1992. The city did not pay a construction contractor until February 1993, grant funds received from EPA in December 1992. The city did not pay other vendors until May 1993, grant funds received in December 1992.

Terms and Conditions 24 of the grant agreement between the city and EPA required the city to "make payments to its construction contractors promptly after receipt of Federal sums." The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* provides for advances providing grantees "maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee."

The payments were late because, of two city accounting staff, only one handled reimbursements related to the federal grant. This one was sick for an extended period of time at the end of 1992. The city did not provide for an alternative to ensure payments were made in a timely manner.

We recommend the city make payments to its vendors, including construction contractors, in a timely manner after receiving payment from the federal grantors.